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IN THE UNITED STATES DISTRICT COURT
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                          DISTRICT OF UTAH
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                          CENTRAL DIVISION
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     PURPLE INNOVATION, a Delaware )
     limited liability company,
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                Plaintiff,
                                ) Case No. 2:20-CV-708RJS
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     VS.
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     RESPONSIVE SURFACE TECHNOLOGY, )
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     a Delaware limited liability )
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     company, et al.,
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                 Defendants. )
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                BEFORE THE HONORABLE ROBERT J. SHELBY
16
                           January 6, 2021
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                    Zoom Video Show Cause Hearing
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                         REDACTED TRANSCRIPT
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January 6, 2021 1 3:00 p.m. 2 PROCEEDINGS 3 THE COURT: We'll go on the record and we'll call 4 5 case number 2:20-CV-708. This is Purple Innovation versus 6 Responsive Surface Technology and others. 7 Why don't we take a moment and make our 8 appearances first. Should we? 9 Mr. Magleby, for the plaintiffs. 10 MR. MAGLEBY: Yes, Your Honor. Jim Magleby on 11 behalf of the plaintiff Purple Innovation, L.L.C. Also with 12 me here are Christine Greenwood and Adam Alba of my office, 13 and then we have a client representative, James Larson. 14 MR. JAMES: Your Honor, good afternoon. I am Tom 15 I represent the defendants, Responsive Surface 16 Technology and Patientech, L.L.C. Rob Golden, who is my 17 clients' representative, is also here present in the Zoom 18 courtroom. 19 THE COURT: Thank you. 20 MR. JAMES: I should add we have local counsel 21 present as well and she may wish to introduce herself. 22 MS. JONES: Annika Jones also here. Good 23 afternoon. 24 THE COURT: Welcome. Good afternoon, everyone. 25 Let me begin with a reminder that it is unlawful

to record federal court proceedings and use them for any purpose. There is one official record of federal court proceedings and it is the one being prepared by our court reporter. What an afternoon it has been and that is going to be the next subject. Anyway, just an admonition that it is impermissible to record these proceedings by audio or video.

Let me just say I worked on this case into the evening last night and we had a busy morning this morning. This afternoon, if I am just candid, I became distracted, at least, if not distressed by the events that are unfolding in our nation's capital, and so the comments that I'm going to share with you today are comments that I have been thinking about for the last day or so, at least since receiving Purple's reply memorandum yesterday.

I am afraid they won't be as organized or as eloquent as they would have been if I had a little more fortitude and focus this afternoon and I want to start there actually. I am reminded too often that I have come to court on days like today, and I am reminded as we open court about the privilege of our democracy. I'm reminded about the statements that I share with our prospective jurors when they answer their summons to come to court and to serve as jurors.

And most relevant probably for purposes of today,

in civil cases I talk to our jurors about the Seventh Amendment to the Constitution and the fact that our nation was the first to guarantee to citizens the right to come to court and to have civil disputes peacefully resolved by members of the community and what a rare and extraordinary right that is. We are rightly the envy of much of the world for our commitment to the rule of law. All of you and everyone who comes into this court and courts around the country can expect that their disputes will be decided fairly and impartially according to established rules and laws. It is something that we I think too often take for granted.

So turning to the dispute before us today, I would like to take a moment at the outset and see if I can summarize where we are and how we got here and then I have some questions. This is the part that I think would have been more organized and I hope more eloquent had I had a different afternoon, so my apologies and I beg your indulgence and patience.

The parties here had a business relationship, for a while at least, and it began to deteriorate or did deteriorate starting in about August of last year. I'm going to have some of the dates a little bit off and some of the time line incorrect I'm sure. My apologies.

My recollection from the papers and the briefing

Purple waited until the Monday before Thanksgiving to file an emergency application for a temporary restraining order. Counsel for ReST observed that at a hearing

Wednesday night, the night before Thanksgiving, on an expedited emergency basis as requested by the plaintiff, and ReST's counsel observed that the timing seemed suspect. I said we would go one step at a time and we would see what we learned along the way. We had expedited briefing from the defendants and their counsel, including work over the Thanksgiving holiday I'm sure, to prepare a response to the T.R.O., and we had a lengthy hearing on Friday, December the lith. It was a Friday and we went into the night and the timing of that hearing is the Court's fault, not Purple's fault. It was a consequence of the Court's availability.

That T.R.O. sought extraordinary relief from this Court on the basis that the defendant, ReST, and there are two defendants and I just refer to them as one, but was engaging in commercial practices that were likely to cause

I ordered on that night, and it was a Friday night, I ordered that ReST bring its marketing into compliance with the Court's order prohibiting the use of Purple's trade name, trademark, brand, and that it stop selling or marketing for sale any products that included or incorporated Purple's product.

That order was entered on Friday night,
December 11th, and we now know that the defendants

immediately undertook efforts to come into compliance with that order, including having employees who, during the holiday season and while traveling, undertook extensive and timely efforts to ensure compliance over the course of the weekend when the defendants did not enjoy access to some of their outside marketing personnel and others. We know that based on the sworn testimony received from ReST and its representatives that it believed it was in compliance by Monday, December 14th.

The next day, December 15th, we know that representatives of Mr. Magleby's firm or representatives of Purple, somebody took screen captures of some portions of ReST's website and did some online searches that revealed at least one Google advertisement that Purple believed was in violation of the Court's T.R.O.

We now know that for weeks preceding that date, and at least several days after that date, some employees of Purple were accessing without authorization or permission Google advertising accounts for the defendant.

I should say both before and at the hearing on Friday the 11th for the T.R.O., the defendants argued that Purple was unable to establish irreparable harm, at least in part, because it had waited to file the emergency application. The defendants again argued that Purple appeared to be engaged in some sharp practices with respect

to the timing of that application. And you'll recall at the hearing I addressed that issue in my ruling and we talked about it in oral argument, and I found that while there were delays, I was satisfied, at least at that time, that they were not significant enough or sufficient to overcome the plaintiff's showing of irreparable injury, and I would not withhold the issuance of a T.R.O. merely on the basis of the timing of the filing and the time that had passed since Purple became aware of at least some of the conduct that forms the basis for the application for the T.R.O.

So we fast-forward and I think we were on the 15th of December when someone associated with the plaintiff found evidence that it believed revealed the defendants' failure to comply with the language of my temporary restraining order. The plaintiff sat on their hands for eight more days and waited until approximately noon the day before Christmas Eve to file another emergency motion. That is the one seeking an order to show case why the defendants should not be held in contempt for violating the Court's T.R.O.

Based on the prima facie showing in the motion submitted by Purple, I was satisfied that it at least merited a response from ReST and, over Purple's objection, concluded that the defendants would be entitled to the same eight days, at least, for their response that the plaintiffs gave themselves before they filed their motion. What that

meant ultimately, again, the day before Christmas Eve, was in order that the defendants respond by December 31st, New Year's Eve, which is precisely what they did. It is clear to me from that response that the defendants have undertaken significant and earnest efforts to comply with the Court's orders.

I am deeply concerned about the reply that we received from Purple. Let me just say that I appreciate that everyone on this call knows more about this case and the facts of this case than I do. You all know more about this dispute and I am mindful of that and I am always careful about forming opinions or drawing conclusions about things that I don't have personal firsthand knowledge about.

I am beginning to form some deep concerns about whether Purple has been operating in good faith in this case, and I come to the bench today at least thinking about whether it would be appropriate and whether I should invite ReST to file a motion for attorneys' fees and costs relating to this motion for an order to show cause or whether, having obtained this injunction in equity, whether I should dissolve the preliminary injunction as a result of Purple's conduct and practices in this case thus far.

I am concerned about the timing of the motions. I am concerned about the overall scheme and time line of this dispute, and I'm concerned about the burden that it has

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placed on the defendants and their counsel. I'm concerned about the tone and tact in some respects taken by Purple. I understand commercial disputes, and I was involved in many of them in private practice and have seen a good number, at least in my years on the bench, so I understand something about the nature of commercial litigation.

As I look at the contempt motion before the Court now, it is extraordinary. It is extraordinary. Purple has recommitted itself to this in its reply, to my surprise. Having obtained a temporary restraining order on the strength of its showing that it would likely prevail on its trademark infringement claims [XXXXXXXXXXXXXXXXXXXXXXXX], it now wants to use the broad language that it supplied to the Court to obtain in its temporary restraining order, broadly referring to intellectual property rights, as a basis for this Court to sanction a party for violation of patent claims that have not been pled or not before the Court for trade dress injuries under the Lanham Act, neither of which are pled, neither of which Purple has attempted to establish with any specificity. And while technically both constitute potentially intellectual property rights and thereby may technically fall within the broad language of the temporary restraining order, were certainly not what the Court and the parties talked about in the briefing and at the hearing on the temporary restraining order.

Purple has not come forward with patents, claims that they contend that the defendants are infringing, evidence or any attempt to show patent infringement, and while they argue about trade dress, I was quite surprised, at least in the reply, that Purple didn't come forward with evidence of its trade dress if it was going to advance an argument on that basis. And so I think there is nothing there that I can tell, nothing that would merit sanctions at least.

And on the advertising claim, confronted with evidence that its own employees were accessing, without authorization, surreptitiously the defendants' Google advertising accounts for purposes undisclosed during the course of this litigation, and instead of providing any explanation or even a statement that it would investigate, it blames ReST for the advertisements that Purple itself created, as I understand on the evidence before me, that ran this long because Purple's employees didn't have a termination date.

I understand from the sworn evidence before me that the defendants were unaware of those advertisements, had no knowledge of them and would have had no reason to go looking for them to take them down in compliance with the Court's order. And when confronted with evidence that its own employees had engaged in what is potentially criminal

conduct, I suppose, though I will tell you I didn't look at 1 2 the statute and I have formed no opinion about that, at 3 least it was unauthorized access to an electronic account, and rather than say that it was concerned and would 4 5 investigate or find out what happened, it criticized ReST 6 for not supplying more information about Purple's misconduct 7 and, again, invited this Court to sanction the defendants. 8 One moment, please. Just hold on. 9 MR. MAGLEBY: Your Honor, I think he has put us --10 THE COURT: Sorry. I just needed a moment. 11 Mr. Magleby, I would like to begin with some questions for you. 12 13 MR. MAGLEBY: Sure. 14 THE COURT: I would like to know whether you, 15 prior to receiving the defendants' opposition memorandum, 16 were aware that any Purple employees were accessing the 17 defendants' Google ad account? 18 MR. MAGLEBY: No. 19 Your Honor, we have submitted the declaration of Rob Towne with the reply, and what Mr. Towne says is his 20 21 belief is that because these accounts -- you have basically 22 a master account. So Mr. Towne has a master Google ad 23 account and somehow any other permission that you have on

Google ads, they all link. So he has got a master account

and then there are subsidiary accounts, and what he says in

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his declaration is that he believes that what that means is any time he signs into his master account to look at Google ads for Purple, as obviously he is allowed to do, that that would trigger a notice or some type of notification to anybody else who is on the account including ReST.

But what he also says is if anything had been done to the account or anything had been changed, then there should have been a way, a very easy way for ReST to have captured whatever those changes were or whatever happened. I guess it tracks what happens. He sets that forth in his declaration. He says, you know, certainly none of the lawyers and nobody in management at Purple ever told us to do anything with that account and we didn't know it was active until, you know, we got the declarations from the defendants. I think I have accurately summarized the high points of Mr. Towne's declaration. Having said that, I don't have it in front of me and I am not reading from it. That is my memory of it.

THE COURT: I do now have it in front of me and I just found it. It was at the end of the exhibits that I printed. I have looked through it and it was behind the patent that you supplied.

Did I miss the reference to Mr. Towne's declaration in your brief? If I did, I owe you at least a partial apology. Is there reference or argument related to

the content of his declaration?

MR. MAGLEBY: You know, Your Honor, I was not involved in that reply as I should have been, although I was involved. I thought there was.

THE COURT: I see it now. I'm sorry. It is right before the conclusion. On page 9 there is reference to his declaration.

MR. MAGLEBY: Let me be clear. When I say I wasn't involved as I should, I take complete responsibility for everything that you have talked about in terms of how this litigation has been handled and the decisions that were made. So I in no way mean to throw anybody in my office under the bus. I am the guy and you're talking to the right guy about those concerns.

THE COURT: If you become aware, Mr. Magleby, of any clarification that needs to be made to the contents of Mr. Towne's declaration, I presume that you'll notify the defendants promptly.

In the meantime, why don't we look forward. I am not, on the record before us, going to hold the defendants in contempt. It is not close. I am disappointed that we all went through this exercise, and while there may have been a basis to file this motion — one of the things I would have done this afternoon, had there been more time, is try to scour the record to see if I could find evidence of

communications between Purple's lawyers and ReST's lawyers about Purple's concerns before you came to court. Knowing what I think I know about you, Mr. Magleby, I presume you tried to address your questions with ReST's counsel before you filed your motion.

MR. MAGLEBY: Unfortunately, Your Honor, I am going to disappoint all of us with that. I did not. I can explain and respond to the Court's concerns if that will be useful. At the same time I don't want to dig myself into a deeper hole. However the Court would like to proceed I am happy to proceed. I certainly understand the Court's concerns and I take them very seriously. I don't think I have ever been the recipient of such strong language from the Court, and I am not saying it is not justified, but I do have answers and reasons for all of it.

THE COURT: I don't know that it is justified, but the concerns that I have were serious enough that in an interest of transparency, and to try to ensure that we were establishing a good tone going forward, I wanted to share them all with you. I meant what I said when I qualified my comments. Of course I know less about the facts of this case and this dispute than everybody on this call and I am reticent to form opinions about motivations, especially motivations for counsel, and so I am not making a direct allegation of any kind.

In fairness I needed to tell you and everyone on this call that I'm beginning to wonder about good faith. I can see, in the early stages of this litigation, signs that are not promising for a commercial dispute in terms of fairly and efficiently resolving the disputes that have to be answered here.

I thought about canceling this hearing. I thought about releasing the witnesses in advance of the hearing. I thought about just issuing a short order, and I didn't think I would be doing anyone service if we didn't have this discussion.

I have shared my part. I am concerned about where we are and where we are headed and, of course, I'm here to serve you and not vice versa. Let me ask you, notwithstanding what I have said, and I don't want to skip over what you just said a minute ago, Mr. Magleby, and I don't need any further response from you, but, of course, you are welcome to respond if you wish. Otherwise, I think our time might be better spent looking forward and thinking about what is left in front of us.

MR. MAGLEBY: I am going to resist the temptation to talk. Like you, Your Honor, I did not -- this afternoon and today has been another crazy day. I thought 2020 was behind us, so I have had a hard time concentrating. I don't think it is going to -- I'm just going to ignore my

instincts.

So I am going to just say again, everything that you have talked about, at least as far as this litigation goes, is from me, not my client, and if there are concerns, that they are appropriately directed to me as counsel.

In terms of going forward, we filed a motion for leave to amend. It was not opposed. That motion does include trade dress and patent claims in it. I fully expected Your Honor would ask me how in the world can I grant an order to show cause based upon claims that are in a complaint that I have not allowed you to file yet. It is a tough answer for me. I had one ready, but given that the Court is denying the motion, I don't think that we need to watch me try to climb that hill.

Our plan would be then to file the amended complaint and proceed with discovery. We'll keep a close eye on what ReST is doing, and if we think there is a basis for expedited relief, then we'll come to court with a fully supported, backed by evidence approach, and we'll present that to the Court and to counsel, and we'll not do it at an inconvenient time unless the circumstances make it so that it was impossible for us to do it at any other time. I will give everybody the commitment that I will raise these issues with ReST in advance, unless I think there is going to be blood on the carpet if I do.

THE COURT: Fair enough.

So everyone here understands my thinking and rationale, while I used the broad language proposed by Purple in the T.R.O., and I think it has been incorporated into the preliminary injunction referring to Purple's intellectual property, that order in my mind was directed and is directed at the use of Purple's trademark, trade name and brand and efforts to sell or market products that include Purple products. It did not contemplate other intellectual property.

Mr. Magleby, if it becomes Purple's position that there are other claims that would support injunctive relief of some kind, we're going to have to start with the Rule 65 factors, and at least the likelihood of success on the merits of a claim relating to that intellectual property in one way or another. I can't tell you that that is the rule or that it is required. I can just tell you that that is what I'm going to require before I would enjoin anything related to patents, for example, or production of mattresses or anything of that kind.

Your motion for leave to amend your complaint, I saw it came in and I saw it was unopposed. We have been preoccupied with other cases. That motion is granted. Go ahead.

The only question in my mind is this. I think the

briefing is complete now on the motion to consolidate but, candidly, I have not read it yet and so I don't know if we'll have a hearing or if I will resolve that motion on the papers and I don't know how it will be resolved. The only lingering concern in my mind is if the cases are consolidated over ReST's objection we'll have yet another complaint, because we'll have to realign the parties and we'll consolidate the pleadings, but I don't think there is any reason for us to wait on that. We'll go one step at a time.

The motion for leave to file the amended complaint is granted. Why don't you file that within the next two days. What is today? Wednesday. By the end of the week -- file it by Friday and we'll go from there.

Why don't we hold off, though, on a scheduling order, unless there is already one in place, until we decide the motion to consolidate so we don't get the two cases out of step and out of sequence.

Mr. James, I have not allowed you a chance even to say hi. You have something that you would like to add?

MR. JAMES: I do, Your Honor. Thank you.

The parties have exchanged a proposed scheduling order, but if the Court wants us to hold off, we're certainly happy to do that. The reason I was champing at the bit here for a moment is as to the consolidation motion

and under Triple A rules, the arbitrator decides what is within the scope. So that would be a decision for the arbitrator to make and potentially something could come back to you, but it might be best not to intermingle the cases if that is looming. I just wanted to make that point.

Otherwise, I appreciate all of your comments earlier.

THE COURT: I anticipate, Mr. James, that when I scour your opposition to the motion to consolidate, that you have included some argument about that.

MR. JAMES: I believe so. I was not on board at the time that was filed, Your Honor, but yes, I believe that that is --

My practice is to require the parties to engage in their discovery without waiting while we resolve preliminary motions and not presume the outcome of those motions, and

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yet in this case I don't think we'll be long. I think for
at least two reasons it makes sense probably for us to
figure out whether the cases are going to be consolidated or
not and whether one or both will be heard in federal court
or somewhere else. Before we get too far into discovery,
let's figure out what rules are going to apply and where you
will be. I will commit to both of you that we'll try to get
to the consolidation motion as quickly as we can. I think
that is an indirect way of me ordering a stay in the case
until we resolve those issues.
         I appreciate your feedback, Mr. James.
         MR. JAMES: Thank you.
         THE COURT: What else is going on and what else
can I do to help?
         Mr. Magleby? You're thinking I have been plenty
of help already. There is no more help of that kind today.
         MR. MAGLEBY: Not at all, Your Honor. Not at all.
This is what we do, and in thinking about what you said at
the beginning about the rules we have and that we follow,
and advantages and benefits we have with the court system,
and this is how we resolve difficult issues and I can't
think of anything else.
         THE COURT: Mr. James?
         MR. JAMES: I had a lot I was planning to offer,
but I don't think we need to at this point.
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Mr. Golden is on the call here representing my client and he was eager to tell you what is going on and we'll have to take that opportunity at some other point in time I think. Thank you. MR. MAGLEBY: Your Honor, just so I understand, I think we're just going to all sit tight, at least in this case, until the Court decides to either set a hearing on the motion to consolidate or gives us other direction. THE COURT: I appreciate you asking that question. I was imprecise in my language. I said a stay and I don't really mean a stay. For example, if ReST wants to file a motion to compel arbitration and if there are other issues that need to be addressed that are legal issues, I am not saying we won't take them up. I mean let's not launch into discovery. Let's not get started down that path until we know where we are headed. Thanks for asking for that clarification. MR. MAGLEBY: Understood. THE COURT: All right. I was sure that there was one more thing. MR. MAGLEBY: The minute we hang up you'll remember it, as will I. THE COURT: Well, I won't keep you any longer than we already have. Counsel on both sides, I appreciate you accommodating expedited briefing schedules and making

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     yourselves available at inconvenient times thus far in the
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     hearing and I appreciate, as always, your prompt attention
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     to these matters.
                I hope you all remain safe and well in these
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     extraordinary and challenging times.
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                We'll be in recess. Thank you, everyone.
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                MR. MAGLEBY: Thank you, Your Honor.
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                MR. JAMES: Thank you, Your Honor.
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                (Proceedings concluded.)
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